delmarva power®

An Exelon Company

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March 31, 2017

Filed Via Delafile
Donna Nickerson
Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: Docket No. 14-193 – Compliance Filing Per Paragraph 6 of Exhibit A of Order No. 8952

Dear Ms. Nickerson:

Pursuant to the requirements of Paragraph 6 of Exhibit A of PSC Order No. 8952 in the above referenced docket, enclosed please find the report of Delmarva Power & Light Company detailing the economic benefits of the Merger for the State of Delaware for 2016.

Should you have any questions, please do not hesitate to contact me at 302-429-3143 or Heather Hall at 302- 451-5325.

Respectfully submitted,

Pamela J. Scott

Enclosure
cc: Heather Hall (w/enclosure)
Lisa Decker, Esquire (w/enclosure)

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2016 Annual Economic Benefits Report

Delmarva Power Delaware

Content

Executive Summary

Pursuant to the merger between Exelon Corporation (Exelon) and Pepco Holdings, Inc. (PHI) (now known as Pepco Holdings LLC), Delmarva Power & Light Company (Delmarva Power) will deliver benefits to its customers and communities through a package of merger commitments. As part of that package, Delmarva Power will file an annual Economic Benefits Report (the Report) to measure the economic impact of the completed merger commitments and provide status updates on other commitments that will drive economic value in the future. Attached is the full Report which provides a description and status update on the benefits Delaware customers and the community have received as a result of the merger. Delmarva Power contracted with Analysis Group, Inc. to assess the state economic impacts through the IMPLAN model.

Delaware customers and entities will receive $80.2 million in benefits as a result of the PHI-Exelon merger, including: the Customer Investment Fund (CIF), Arrears Forgiveness, Workforce Development Program funding, Energy-Efficiency Program funding, Charitable Contribution and Community initiatives, and the Most Favored Nation (MFN) provisions. In 2016, Delmarva Power provided approximately $41.6 million in financial benefits to Delaware customers. Delmarva Power is poised to quantify the benefits for additional commitments that have yet to be realized by customers and communities, such as Funding for Energy Efficiency Programs and Expanded Forgiveness of Residential Customer Accounts Receivable. The merger commitments that have been fulfilled have provided $66.9 million in direct, indirect and induced economic value to Delaware, including 303 job years and approximately $2.2 million in state and local taxes. Delmarva Power will continue to assess the economic value of the financial merger benefits, through the IMPLAN model, as they are provided to customers and communities and will submit the results of those analyses in future annual reports.

In addition to the financial benefits provided in 2016 as a result of merger commitments, Delmarva Power committed to – and achieved – more stringent reliability performance, which has the effect of lowering the economic and other negative impacts of outages. This Report does not quantify these benefits. Synergy savings and continued integration efforts which reduce customers' cost of service below what it would otherwise be without the merger, provide further benefit to customers. These savings, though, are also not quantified in this Report.

Delmarva Power will continue to ensure that the customers and the communities it serves receive the benefits of the merger commitments in 2017 and beyond.

1 Introduction

1.1 Merger Condition Driving this Report

This document presents the Delmarva Power 2016 Annual Economic Benefits Report, which has been developed in compliance with Delaware Public Service Commission (Commission) Order No. 8952, Paragraph 6 of Exhibit A, in Docket No. 14-193.

Paragraph 6 states the following:

For each of the first five (5) years after the Merger close, Delmarva Power will submit an annual report detailing the economic benefits of the Merger for the State of Delaware. The Report will detail the methodology used to calculate the benefits and the specific description of the benefits.

1.2 Scope of this Report

This Report includes information for the period March 24, 2016 through December 31, 2016. For the purposes of this Report, Delmarva Power engaged Analysis Group, Inc. to assess the economic benefits of the merger to Delaware customers. Analysis Group utilized the IMPLAN model to calculate the economic impacts of rate credits and payments that have been provided to customers and charitable contributions made in Delaware since the close of the merger. Economic benefits are quantified for the following commitments (Docket 14-193, Commission Order No. 8746 dated June 2, 2015), that were completed within the reporting period:

- Merger Commitment Paragraph 85 (Customer Investment Fund)
- Merger Commitment Paragraph 74 (Charitable Contributions)
- Merger Commitment Paragraph 8 (Workforce Development Initiative)
- Merger Commitment Paragraph 77 (Low Income Debt Forgiveness)

In addition to providing the economic benefits of the commitments described above, this Report provides a description of financial merger commitments as well as an overview of enhanced reliability, synergy savings initiatives, union hires and Most Favored Nation commitments undertaken in 2016 that will benefit customers in 2017 and beyond. Several commitments, such as funding for low-income energy-efficiency programs, have not been completed and, thus, cannot be quantified until a direct benefit has been provided to customers in Delaware.

2 IMPLAN Methodology

Delmarva Power provided the information to Analysis Group for input into the IMPLAN model. The model, which is well accepted and is utilized by many government agencies, provides for analysis of interactions in a defined economy (e.g., a state) and calculation of economic impacts in that economy when a new activity introduces a change in the conditions in the economy. A typical change could be an investment in a new facility being built, or a new government or private-sector program supporting an economic development strategy. IMPLAN relies on a detailed system of accounting for relationships among different parts of an economy, and employs state-specific economic data. While the model is focused on economic activity inside an economy, the model also tracks the movement of money and people into and out of that economy. The model thus examines inflows, outflows, and interactions within the regional economy under study.

Two primary metrics were used to assess the impact of the Exelon-PHI Merger Commitments:

- *Employment* effects (the total number of job years created. Job years are defined as, for example, one job for 12 months, or two jobs over 6 months); and
- "*Value-added*" effects (the total economic value added to the economy, which reflects the gross economic output of the area less the cost of the inputs. This metric is most closely associated with Gross State Product in Delaware).

There are various ways in which the new activity creates impacts, each of which is separately tracked by the model:

- *Direct* effects (the initial set of inputs that are being introduced into the economy. For example, the Merger Commitments aimed at rate credits and workforce-development programs); and
- *Indirect* effects (the new demand for local goods, services and jobs as a result of the new activity. For example, growth in regional insulation manufacturing as a result of energy efficiency funding that result from Merger Commitments); and
- *Induced* effects (incremental spending on goods and services resulting from additional income. For example, additional consumer purchases due to having more money in their pockets from having received a credit on their utility bill as a result of the Merger Commitments).

The indirect and induced effects are often referred to as "multiplier" effects, as they measure the impact of the direct activity as it flows further throughout the regional economy.

3 Measured Benefits

3.1 Customer Investment Fund

Delmarva Power established a CIF to credit a total of $40 million[1] to Delaware residential customers. In the second quarter of 2016, the rate credit appeared on residential customer's monthly bill as a $122.64 electricity credit and/or a $49.95 gas credit.

3.2 Charitable Contributions and Other Commitments

Charitable Contributions – As a condition of the merger, Delmarva Power, in conjunction with Exelon, will provide significant levels of charitable contributions and traditional community support. Specifically, charitable contributions of at least an annual average in excess of $699,000 will be made to charities in Delaware for the ten-year period following the close of the merger. For the reporting period, Delmarva Power, in conjunction with Exelon, made charitable contributions of $903,576 to Delaware organizations, well in excess of the merger commitment.

Workforce Development – Delmarva Power, in conjunction with Exelon, partnered with Delaware Technical and Community College, Delaware State University, the United Way, and the Boys and Girls Club of Delaware to make a contribution of $2 million over the next four years to a workforce development initiative. The first of four annual payments was made to each of these organizations on June 8, 2016.[2]

Low-Income Debt Forgiveness - Delmarva Power forgave Delaware residential accounts receivable over three years old, as of the merger completion date, to reduce qualifying low-income families' financial burden. Delmarva Power forgave $178,513[3] in outstanding balances as a result of the merger on April 5, 2016.

Low-Income Energy Efficiency Programs – Delmarva Power will provide $2 million for low-income customer energy efficiency programs in an effort to promote demand response and energy efficiency (an additional $2 million will be provided pursuant to Order No. 8970 as addressed later in this Report). Delaware's Energy Efficiency Advisory Council (EEAC) has created monthly work group sessions, which Delmarva Power has attended, to determine which energy efficiency programs could benefit from these funds. Delmarva Power will provide funding once a list of programs has been approved by the EEAC and the Commission.

Consumer Advocates of PJM States Inc. (CAPS) – CAPS is a nonprofit organization representing more than 61-million consumers in the 13 PJM states and the District of Columbia. On June 6, 2016, a one-time $350,000 contribution to CAPS was made by Exelon in order to facilitate consumer advocacy. The contribution is not specific to Delmarva Power, but instead was made to benefit customers in all of PHI's utilities and service territories and, therefore, is not quantified in this Report.

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[1] Based on May 2016 true-ups, the total value of the rate credit was $40,155,193.

[2] Delaware State University and Delaware Technical and Community College both received $180,000. The United Way received $90,000 and The Boys & Girls Club of Delaware received $50,000.

[3] The Low Income Debt Forgiveness benefit initially required Delmarva Power to forgive $1.0 million in outstanding balances. The difference will be added to the 'Expanded Forgiveness of Residential Customer Accounts Receivable' MFN benefit.

3.3 Economic Value of Measured Benefits

Delmarva Power's Delaware customers and communities received nearly $41.6 million in direct benefits, in the form of credits, payments, and charitable contributions, for the reporting period. The IMPLAN model determined that Delmarva Power created a total economic value of nearly $66.9 million in direct and "indirect & induced" benefits, including approximately $2.2 million in state and local taxes, and 303 job years from the 2016 merger commitments.

The IMPLAN model determined that the CIF rate credits provided a total of $65 million in benefits -- $40 million in direct and $25 million in "indirect & induced" economic value, including approximately $2.1 million in state and local taxes for the reporting year.

Delmarva Power, in conjunction with Exelon exceeded the charitable contributions commitment for the year by spending $903,576. To determine the economic value of this spend, the IMPLAN model accounted for organizations that utilize goods and services both inside and outside of Delaware to support their efforts. Based on that determination, the total direct and "indirect & induced" economic value of the contributions was calculated as $949,416 for 2016.[4] In addition, the 2016 charitable contributions produced 12 new job years -- six of which were created directly and another six were established indirectly.

Low-Income Debt Forgiveness credits were assumed to result in incremental income for households resulting in $303,935 in direct and "indirect & induced" economic value, including $10,412 in state and local taxes, and one (1) new job year. The initiative created 15 job years during the reporting period, twelve of which were the direct result of Delmarva Power's spending and another three that were established indirectly.

[4] The economic value added metric measures gross economic output less the cost of the inputs, so that direct contributions modeled as sales to the relevant industry can have a direct economic value added that is less than the actual dollars invested. For charitable contributions, this reflects that charitable organizations utilize intermediate goods and services in order to provide their services. To the extent these goods and services are located within the area of study, they will be captured by increased indirect activity, but typically some portion of this spending leaves the region.

Table 1: Summary of Measured Benefits

Table 1 Summary of Measured Benefits		
Benefits to:	**Type of Benefits**	**Economic Benefits Associated with Merger's Regulatory Commitments to Delaware:**
Delaware customers	Currently quantifiable benefits	**Customer Investment Fund:** • Residential Bill Credit of $122.64 per customer processed and posted to residential electric customer accounts and $49.95 per customer processed and posted to residential gas customer accounts in the 2nd quarter of 2016. **Charitable Contributions:** ▪ Total charitable contributions in the amount of $903,576 were made to Delaware in 2016. **Low-Income Debt Forgiveness:** ▪ Arrears forgiveness in the amount of $178,513 was released on April 5, 2016. **Workforce Development Programs:** The first of four annual payments ($500,000 in total) was provided to four institutions in Delmarva Power's Delaware service territory on June 8, 2016.
	Other unquantified benefits and commitments	**Low-Income Energy Efficiency Programs:** • Delmarva Power working with Energy Efficiency Advisory Committee to determine appropriate programs to fund. No funding occurred in 2016. **Consumer Advocates of PJM States Inc.:** • The one time contribution of $350,000 was funded by Exelon on June 6, 2016 but has not been quantified for this Report because it is made to benefit customers in all of PHI's service territories.

Table 2: Summary of Economic Impacts

Summary of Economic Impacts Exelon-PHI Merger Commitments for Calendar Year 2016 Delaware								
		Employment (job-years)			Economic Value Added ($2017)			Taxes ($2017)
	Total Dollars Spent in 2016	Direct	Indirect & Induced	Total	Direct	Indirect & Induced	Total	State & Local[1]
Delaware								
Residential Rate Credits	$ 40,000,000	-	275	275	$ 40,000,000	$ 25,036,632	$ 65,036,632	$ 2,099,240
Low Income Debt Forgiveness	178,513	-	1	1	178,513	125,422	303,935	10,412
Work Force Development	500,000	12	3	15	312,063	265,317	577,379	30,927
Charitable Contributions	903,576	6	6	12	426,745	522,671	949,416	49,493
Total	**$ 41,582,089**	**19**	**285**	**303**	**$ 40,917,321**	**$ 25,950,042**	**$ 66,867,363**	**$ 2,190,072**

Note: [1] State & Local Taxes are included in Economic Value Added.

3.4 Most Favored Nation

Because PHI operates in several jurisdictions (Delaware, Maryland, New Jersey and the District of Columbia), the Commission approved a MFN provision in Commission Order No. 8746 to ensure that Delmarva Power's Delaware customers receive comparable benefits to the customers in other jurisdictions. Once the merger closed, the Commission, through Order No. 8970, approved additional benefits to be provided to Delaware as a result of that MFN provision. The following additional benefits make up the MFN financial benefits in Delaware:

- Low-Income Energy Efficiency Funding - $2 million
- Delaware Economic Development Office (DEDO) - $6 million

- Arrearage Forgiveness Funding - $4.0 million[5]
- Commercial and Industrial Energy Efficiency Programs - $16 million

The Commission approved the enhanced MFN benefit level to Delaware on November 1, 2016; however, Delmarva Power has not made any payments to date, due to the fact that some payments must first be approved by the EEAC and then the Commission, and others must be approved by DEDO. Because the benefits have yet to be provided to customers, they will be reflected in the future annual reports.

4 Additional Benefits

4.1 Integration Efforts

Delmarva Power has implemented Exelon Utilities (EU) best practices including internal and industry-wide benchmarking and process improvements. Through coordination with the other EU operating companies, Delmarva Power has adapted and implemented processes to measure the performance across each aspect of the operations including safety, system reliability and customer satisfaction. These indicators are the framework for company-to-company comparisons as well as industry benchmarking. This process is embedded in the management structure of the utilities to ensure that Delmarva Power obtains the performance improvements projected for each best practice, and follows-up on the implementation to capitalize on opportunities for continuous improvement. For further information on the Delmarva Power's integration efforts, see the Integration Report filed with the Commission on March 23, 2017 in Docket No. 14-193.

4.2 Reliability

Delmarva Power is committed to meeting the enhanced reliability performance requirement set forth in the Amended Settlement Agreement (~~Relability~~Reliability Commitment). The Reliability Commitment requires Delmarva Power to meet a minimum SAIDI performance of 175 minutes by the year 2020. In achieving a SAIDI level that does not exceed 175 minutes, Delmarva Power anticipates that the System Average Interruption Frequency Index (SAIFI) will not exceed 1.5 and the Customer Average Interruption Duration Index (CAIDI) will not exceed 120 minutes. This level of SAIDI reliability performance is significantly better than that afforded by the 295 minutes of SAIDI currently permitted by the pre-merger Docket 50 standard to which Delmarva Power would otherwise be held in the absence of the merger.

[5] The total includes an additional $827,496 in Low-Income Debt Forgiveness benefits and the $3.1 million Arrears Forgiveness MFN benefit.

Table 3: Reliability Commitments

Annual Commitment		2016	2017	2018	2019	2020
Merger Commitment[6]	SAIFI	N/A	N/A	1.5	1.5	1.5
	SAIDI	N/A	N/A	175	175	175
Docket 50 Standard[7]	SAIFI	N/A	N/A	N/A	N/A	N/A
	SAIDI	295	295	295	295	295
Actual	SAIFI	0.99	N/A	N/A	N/A	N/A
	SAIDI	101	N/A	N/A	N/A	N/A

System Average Interruption Frequency Index (SAIFI) – SAIFI measures outage frequency on a per customer basis during a time period. In Delaware, Delmarva Power recorded a SAIDI of 0.99 for 2016 performing better than its goal.

System Average Interruption Duration Index (SAIDI) – SAIDI measures the length of time customers are without power. The SAIDI values in this Report are expressed in minutes. In Delaware, Delmarva Power recorded a SAIDI of 101 for 2016 performing better than its goal.

Delmarva Power has met the minimum SAIDI performance requirement established in Commission Order No. 8746 as well as the Docket 50 minimum performance requirement. As a result, customers have experienced fewer and shorter disruptions of service, which can have adverse impacts on customers' household activities, business operations, and other aspects of their day-to-day lives. The value to customers of shorter outages is that they will experience lower economic and other negative impacts from outages.

Joining the Exelon family of utilities has allowed Delmarva Power to improve its operational efficiency by capitalizing on its access to additional resources and materials. One benefit that Delmarva Power has experienced from the merger is having access to more mutual assistance (MA) resources during storms. Being in the Exelon family not only increases the number of resources available, it allows work crews to come from sister-utilities in Philadelphia (PECO), Chicago (ComEd), and Baltimore (BGE) in the event of an emergency. Delmarva Power's MA

[6] Pursuant to Paragraph 82 of Exhibit A of Order No. 8746, Delmarva Power agrees that its System Average Interruption Duration Index ("SAIDI") will not exceed 175 minutes by 2020. based on a three-year historical average calculated over the 2018-2020 period (excluding major weather events as calculated consistent with the methodology currently utilized by the Commission). In achieving a SAIDI level that does not exceed 175 minutes, Delmarva Power anticipates that the System Average Interruption Frequency Index ("SAIFI") will not exceed 1.5 and the Customer Average Interruption Duration Index ("CAIDI") will not exceed 120 minutes. This level **of** SAIDI reliability performance is significantly better than that afforded by the 295 minutes of SAIDI currently required by the Docket 50 standard to which Delmarva Power would otherwise be held in the absence **of** the Merger. If the SAIDI level **of** reliability improvement is not achieved, the return on equity to which Delmarva Power would otherwise be entitled in its next electric distribution base rate case filed after January 1, 2021, will be reduced by 50 basis points. The return-on-equity reduction would apply throughout the period that the rates established by that rate proceeding are in effect, and Delmarva Power would be required to initiate a new base rate proceeding and obtain an order from the Commission approving new rates to end the return on equity penalty. As a result of the
above-referenced reduction in Delmarva Power's reliability related capital budgets and the SAIDI commitment above, the Joint Applicants, Staff and the Public Advocate will request that the Commission close Docket No. 13-152.

[7] The Commission did not establish a SAIFI standard in Docket 50.

resource access to these utilities effectively reduces the amount of time Delmarva Power would need to wait for resources to arrive. In fact, Delmarva Power mobilized line and field support personnel from sister-utilities PECO, BGE, ComEd, and Potomac Electric Power Company (Pepco) to restore power to all customers impacted by Winter Storm Stella in March 2017. To further capitalize on the benefit of added resources, Delmarva Power field crews began using the EU Lock Out Tag Out (LOTO) safety procedure for all switching and clearance work.

Note that the IMPLAN analysis presented here does not reflect savings and benefits from reduced durations (and is thus understated as to benefits from the merger).

4.3 Synergy Savings

Synergy savings are a result of economies of scale and increased efficiency. Delmarva Power is actively tracking its synergy savings and the costs to achieve (CTA). As Delmarva Power continues to realize synergies in functions such as Utility Operations, Labor, Information Technology, etc., Delmarva Power's cost of service will be lower than it would otherwise have been in the absence of the merger. The reduced cost of service will be reflected in customer rates in the ratemaking process. However, the IMPLAN analysis presented here does not reflect synergy savings (and is thus understated as to benefits from the merger).

4.4 Employee Hires

Combined union hires (e.g., inclusive of Local 1238 and Local 1307), totaled 11 employees during the reporting period. Employees falling into the Operatives (semi-skilled) and Office and Clerical EEOC codes accounted for seventy-three percent (73%) of union hires, totaling eight (8) employees hired, while there was one (1) employee each hired as a Craft Worker (skilled), Service Worker and Technician. The 11 union employees hired through the end of the reporting period account for thirteen percent (13%) of the 83 employees that Delmarva must use its best efforts to hire into Local 1238 and Local 1307 within two years of Merger consummation. Additional hires provide an indirect benefit to Delaware through consumer-spending increases. For further information on Delmarva Power's integration and hiring efforts, see the 2016 Annual Employment Report filed with the Commission on March 31, 2017. Note that the IMPLAN analysis presented here does not reflect hiring (and is thus understated as to benefits from the merger).

5 Conclusion

As a result of the merger, Delmarva Power, in conjunction with Exelon, has delivered considerable economic benefits to its Delaware customers and communities through its CIF, workforce development, low-income arrearage forgiveness, and charitable contributions. In 2016, the total economic value added to Delaware's economy as a result of the merger was approximately $66.9 million, including nearly $2.2 million in state and local taxes. The economic value and tax base was aided by the 303 job years created through the merger's financial benefits. The MFN commitments, totaling approximately $28.2 million, were left unquantified in this Report because these amounts had not yet been paid by the end of the reporting period. These commitments, along with the annual charitable contribution commitment, will provide measureable benefits for customers and Delaware's economy at a future time. Difficult-to-quantify but still important economic benefits such as synergy-savings and improved reliability will continue to benefit customers through reduced cost of service and shorter outages.

Delmarva Power is committed to fulfilling all of its commitments to ensure that Delaware customers and communities continue to benefit from the merger. In compliance with the provisions of Paragraph 6 of Commission Order No. 8952, Delmarva Power will provide updates on the economic benefits of the merger on an annual basis for five years following the merger close. The next Report will be filed in 2018.